

PX 260

Message

From: Ryan Zagone [REDACTED]@ripple.com]
on behalf of Ryan Zagone [REDACTED]@ripple.com> [REDACTED]@ripple.com]
Sent: 8/16/2018 5:11:00 PM
To: Brad Garlinghouse [Brad Garlinghouse <[REDACTED]@ripple.com>]
Subject: Re: leave behinds

Resources for your meeting prep.

1. Ripple and XRP One Pager - Handout used on the Hill. Overview of our company and XRP, highlighting why XRP should not be considered a security and the importance of this decision for America's ability to compete internationally.

2. Cotton Letter on International Competitiveness: This is a draft letter (not yet public - internal only) we are writing for Senator Cotton with an aim he will deliver it to the Fed. It best captures a key narrative we use on the Hill: Countries are leveraging blockchain and digital assets to own the next generation of finance. It is in America's national security and economic interests to support US companies that are leading payment innovation.

The national security and economic interest talking points have been very well received.

Other articles we have shared on the Hill to support these themes:

- "UK in strong position to be leader in crypto economy, report says" - The Guardian
- "Putin And Ethereum: A Match Made In Fintech" - Forbes

Let me know if you have any questions or want to discuss. Happy to talk anytime Friday or this weekend.

On Thu, Aug 16, 2018 at 7:23 PM Ryan Zagone [REDACTED]@ripple.com> wrote:

Just landed. Will forward to you tonight as soon as I'm at computer.

On Thu, Aug 16, 2018 at 6:06 PM Brad Garlinghouse [REDACTED]@ripple.com> wrote:

Ryan,

As discussed, can you please share with me the leave behinds you have been using?

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Ryan Zagone
Director of Regulatory Relations | Ripple

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Ensuring American Leadership on The Future of Payments

- Blockchain and digital assets are the future of financial services.
- It is in the United States' economic and national security interests to be a global leader on these technologies.
- Ripple is a U.S. company leading this innovation, using decentralization technology and supporting regulation like the New York Bitlicense to protect consumers and markets.

Ripple: A U.S. based technology company using blockchain to connect fiat currencies efficiently and without friction. By joining Ripple's growing, global network, financial institutions process their customers' payments anywhere in the world instantly, reliably and cost-effectively. Recent pilots showed blockchain and virtual currency can lower the cost of a cross-border payment by 40–70%. This cost savings is substantial when applied to lower value payments, like remittance transfers.

XRP: An independent digital asset built on open-source technology. XRP can be used to connect hard-to-reach currencies, which previously took days. Transactions take an average of 4 seconds, compared to an average of 30 minutes to an hour for bitcoin, and 10 minutes for Ethereum. XRP is also highly scalable, able to handle over 1,500 transactions per second at a cost of \$0.005 per transaction. XRP also works across networks and requires negligible energy consumption. To date, 30 million ledgers have closed without issue.

XRP is decentralized. Of the approximately 155 public validators that confirm XRP transactions, Ripple operates only 10. Any changes to the XRP Ledger must be approved by 80% of the outstanding validators. XRP users have the ability to choose their validators and Ripple has been in process of decreasing the number of Ripple validators on recommended list.

XRP exists separately from Ripple. XRP does not represent equity in the company. Ripple holds just over 13% of freely-trading XRP. To limit its potential influence in the market, Ripple voluntarily put a large majority (55 billion) of its XRP in escrow, with only 1 billion released each month. Ripple's market activity constitutes approximately 0.1% of daily XRP trading.

American Leadership on Blockchain: From revolutionizing payments to removing friction and uncertainty in global trade, blockchain and virtual currencies have the potential to enable greater financial inclusion and lower barriers to economic growth – ensuring America remains a global financial center.

The United States was an early adopter of anti-money laundering regulations, with FinCEN issuing guidance for virtual currency activity in March 2013. Registration and suspicious activity reporting—two important tools for combating money laundering—have been a requirement for several years. The traceability of transactions that this technology enables provides a useful trail for law enforcement to identify suspicious activity. The decentralization of blockchain democratizes many processes. However due to how changes to a particular blockchain ledger are made, some networks may be vulnerable to concentration of powers in certain entities or miners, or even control by foreign governments.

Solution: When the United States competes on a level playing field, we win. Ripple represents American innovation at its best, empowering businesses and entrepreneurs, speeding access to payments, and ensuring the global economy is working at the speed of the future, today. In order for the United States to be a leader in blockchain technology, it is important that our regulators not impair U.S. innovation. Now that Bitcoin and Ether have been determined not to be securities, the same treatment should be applied to similar other virtual currencies that are even more decentralized and not subject to foreign control. This approach is crucial to maintaining the leading edge of our financial system.

For more information, [REDACTED] @Ripple.com

Cotton Letter to Fed on Virtual Currencies

Dear Chairman Powell,

A U.S. payments system that is safe, efficient, and broadly accessible is vital to the U.S. economy. The Federal Reserve, as provider of payment services to financial institutions and the U.S. Treasury, is rightfully focused on meeting the evolving needs of payment system users for end-to-end payment speed, efficiency and security, while remaining true to its longstanding financial services mission to foster the integrity, efficiency and accessibility of the U.S. payment system.

Our payment infrastructure is vital to America's competitiveness and national security, and the Federal Reserve has often stated the importance of the U.S. private sector leading the development of this infrastructure. Blockchain and virtual currency will be the next generation of this infrastructure. We must ensure that the policies of our regulators support the efforts of U.S. companies working in these technologies. Inconsistent decisions made by other regulators could harm the Federal Reserve's efforts to develop a competitive payments market in these developing critical technologies. Given that reality, it is imperative that the Federal Reserve, Congress, and other Federal financial regulators work collaboratively to develop a clearer articulation of our regulatory approach, both through a better understanding of policy and, ultimately, through formal guidance or regulation, rather than strictly by enforcement.

China is looking to own the next generation of finance by developing their own cryptocurrency and ranked blockchain and virtual currency projects in a skewed evaluation that favored the protocols they felt they could control. China is set to develop national Blockchain standards by the end of 2019, and President Xi Jinping gave a speech at the Chinese Academy of Sciences annual conference where he stated, *"Ever since the start of the 21st century, a new generation of industrial revolution is substantially reshaping the global economic structure with artificial intelligence, internet of things and Blockchain constantly making application breakthroughs."* President Xi also called blockchain part of the *"new industrial revolution."* At the same conference, the Ministry of Industry and Information Technology launched a white paper stating that China should speed up the application of blockchain in industries such as trade finance, transaction settlement, insurance and securities, along with intellectual property, wealth management, big data, energy and health care. The paper shows that China has filed the most blockchain patents in the world, with 178 new blockchain companies created in 2017 and a total of 456 blockchain startups in China.

Moreover, some virtual currencies lack attachment to the United States and are subject to foreign manipulation. As of December 2017, almost 80% of Bitcoin's computing power was located in China. Similarly, a recent study indicated that three miners account for 61% of Ether's average weekly capacity. A number of large Ethereum mining pools are also located in China. This centralization in a small number of miners is relevant because any user or group controlling over 50% of the Bitcoin or Ether blockchain would have total control over the validation of transactions on the blockchain—including if they wanted to reverse prior accepted transactions.

Even our allies are leaping ahead of us in fostering an environment for these technologies to thrive. Mary Stark, Director of Competition for the UK's Financial Conduct Authority, has stated, "*Positively, we see firms using cryptocurrency for international money remittance, lowering the cost and time of sending money overseas. So there are legitimate and economically significant use cases.*" Similarly, Matt Hancock MP, UK Secretary of State for Health and Social Care, noted that "*There are now more people working in UK Fintech than in New York - or in Singapore, Hong Kong and Australia combined.*" Elsewhere, Japan released comprehensive virtual currency rules last year that protect consumers and enable new use cases. Similarly, Singapore and Switzerland have created new frameworks to clearly classify and address risks in ICOs.

Domestically, a lack of coordination among regulators in the United States has resulted in conflicting views and broad uncertainty. The U.S. Government Accountability Office found that our fractured regulatory structure is stifling innovation, freezing the market here while other countries pass us by. America is losing its competitive edge. To support responsible American companies developing blockchain and virtual currency payment networks, we need greater regulatory coordination and a focus on how to ensure America remains competitive while keeping consumers safe.

Michael A. Brown, Presidential Innovation Fellow, emphasized the importance of blockchain among the critical technologies that the United States must protect in testimony before the House Financial Services Committee: "*the technologies where Chinese firms are investing are the same as where U.S. venture capital firms are investing and will be foundational to future innovation such as artificial intelligence, autonomous vehicles, augmented/virtual reality, robotics, blockchain and genetic engineering.*" To regain our competitive edge and prevent foreign adversaries from harming our national security by dominating global payment systems, our regulators need to recognize the threat and coordinate on an innovation-friendly path forward for U.S. companies.

I would greatly appreciate your time and candor in providing answers for the sake of enhanced clarity for innovators as well as to further a longer term goal of developing formal guidance:

How is the Federal Reserve engaging to ensure the decisions made ensure our competitive advantage and expertise in the next generation of payment infrastructure?

What can the Federal Reserve do to drive more coordination as the reliability, functionality, and security of our payment infrastructure is a key objective of the Fed and is impacted by decisions being made at other regulators?

Thank you for your attention on this important matter.

Sincerely,

Senator Tom Cotton